

Message Text

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TAGS: EFIN, EEC

SUBJECT: EC COMMISSION'S VIEWS ON EUROPEAN COMMON BORROWING
FACILITY AND OECD SOLIDARITY FUND

REFS: A. EC BRUSSELS 1367

B. EC BRUSSELS 1074

C. EC BRUSSELS 724

1. SUMMARY: DESPITE THE ITALIAN DECISION NOT TO REQUEST A
LOAN AT THIS TIME, THE EC COMMISSION PLANS TO CONTACT SELECTED
OPEC COUNTRIES TO DETERMINE THEIR INTEREST IN THE EUROPEAN COMMON
BORROWING FACILITY. VICE PRESIDENT HAFERKAMP WILL PROBABLY
VISIT SEVERAL OPEC COUNTRIES IN MARCH OR APRIL. COMMISSION
DIRECTOR NASH BELIEVES THE US HAS OBTAINED CONSIDERABLE PO-
LITICAL SUCCESS IN ITS RAPID AND SUCCESSFUL NEGOTIATIONS TO
ESTABLISH THE OECD SOLIDARITY FUND. HE BELIEVES THE FUND WILL
LIKELY BE OPERATIONAL BY YEAR END BUT HE HAS RESERVATIONS
OVER USING SOLELY A GERMAN GUARANTEE IN SOME OF THE FUND'S
BORROWING OPERATIONS.

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2. EC BORROWING FACILITY: EC COMMISSION OFFICIALS ARE RELAXED

ABOUT THE ITALIAN DECISION NOT TO SEEK A LOAN UNDER THE EURO-PEAN COMMON BORROWING FACILITY AT THIS TIME. IN ADDITION TO THE REASONS STATED IN REF. B, DIRECTOR FOR MONETARY AFFAIRS NASH WAS TOLD BY GOI OFFICIALS THAT ITALY WANTED TO BORROW FIRST FROM THE IMF OIL FACILITY. COMMISSION OFFICIALS BELIEVE MEMBER STATES SHOULD BORROW FROM THE IMF BEFORE TURNING TO THE COMMUNITY FOR ASSISTANCE. THEY CONSEQUENTLY AGREE FULLY WITH THE GOI'S DECISION. NASH IS CERTAIN, NEVERTHELESS, THAT THE ITALIANS WILL REQUEST A LOAN FROM THE EC FACILITY THIS YEAR.

3. THE COUNCIL (FINANCE) OF FEB 17 DID FORMALLY APPROVE THE EC FACILITY AS AN A POINT ON ITS AGENDA. AS REPORTED IN REF TEL A, IT ALSO AUTHORIZED THE COMMISSION TO UNDERTAKE EXPLORATORY DISCUSSIONS WITH OPEC COUNTRIES TO DETERMINE THEIR INTEREST IN MAKING A LOAN TO THE EC FACILITY. VICE PRESIDENT HAFERKAMP AND NASH ARE TENTATIVELY PLANNING TO VISIT SEVERAL OPEC COUNTRIES IN EITHER MARCH OR APRIL. HAFERKAMP AND NASH WILL MEET WITH WITTEVEEN ON FEB 20 TO COORDINATE THESE NEGOTIATIONS WITH THE IMF AND TO ASSESS THE TYPE OF TERMS THE EC MIGHT BE ABLE TO OBTAIN FROM THE OPEC COUNTRIES. PRESENTLY COMMISSION OFFICIALS ARE PLANNING TO VISIT SAUDI ARABIA, KUWAIT, AND THE UNITED ARAB EMIRATES BUT THIS LIST MAY LENGTHEN. NASH'S ONLY CONCERN OVER A DELAY IN THE BORROWING OPERATION IS THAT SAUDI ARABIA MAY BECOME TIRED OF HAVING TO WAIT TO INVEST ITS FUNDS.

4. OPEC SOLIDARITY FUND: NASH, WHO HAS BEEN PARTICIPATING IN THE VAN YPERSELE GROUP, BELIEVES ALL THE OECD COUNTRIES, ESPECIALLY THE US, HAVE OBTAINED CONSIDERABLE POLITICAL SUCCESS BY MOVING AHEAD SO RAPIDLY THE COMPLEX NEGOTIATIONS OVER THE FUND. NASH EXPECTS THE SUBSTANTIAL PART OF THE NEGOTIATIONS TO BE COMPLETED BY THE END OF MARCH AND LEGAL TEXTS SHOULD BE IN FINAL FORM BY MAY OR JUNE. RATIFICATION SHOULD THEN TAKE SEVERAL MONTHS SO THAT THE FUND WOULD BE OPERATIONAL BY ABOUT NOVEMBER.

5. NASH HAS ONLY ONE MAJOR RESERVATION OVER THE CURRENT STATE OF NEGOTIATIONS. AS HE EXPLAINS IT, THE FRG WILL GIVE ITS GUARANTEE TO THE FUND WHICH IN TURN WILL ASK THE BIS TO BORROW ON BEHALF OF THE GERMAN GUARANTEE. THIS BORROWING WILL BE IN LIEU OF A GERMAN DIRECT CONTRIBUTION. NASH BELIEVES SUCH A CONFIDENTIAL

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BORROWING SHOULD BE IN THE NAME OF ALL THE FUND'S PARTICIPANTS AND NOT JUST THAT OF THE FRG AND PERHAPS ONE OR TWO OTHER PARTICIPATING COUNTRIES. OTHERWISE, THE SOLIDARITY OF THE FUND IS WEAKENED AND DOUBTS COULD ARISE IN CAPITAL MARKETS OVER THE COHESIVENESS OF THE FUND. HE ADDS THAT IF THE US IS CONCERNED OVER A POSSIBLE DEFAULT IN SUCH A JOINT BORROWING OPERATION, THE FRG COULD BE ASKED TO PROVIDE A COUNTER-GUARANTEE TO THE FUND TO COVER THE AMOUNT OF THE BORROWING. GREENWALD

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